

## Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 SPC-03 SAM-01 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 AGR-20 L-03 H-03 PA-04 PRS-01 USIA-15

FEA-02 SCI-06 INT-08 DRC-01 ( ISO ) W  
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R 052130Z FEB 74

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC 1195

C O N F I D E N T I A L BOGOTA 1017

E.O. 11652: NA

TAGS: EFIN

SUBJECT: NEW GOC MEASURES TO FIGHT INFLATION

1. BEGIN SUMMARY: AT LEAST IN PART TO OFFSET THE 29 PER CENT EXPANSION IN THE MONEY SUPPLY IN 1973 (THE LARGEST SINGLE EXPANSION IN AT LEAST 20 YEARS) THE GOC RECENTLY ANNOUNCED THREE NEW ANTI-INFLATIONARY MEASURES WHICH COULD GO A LONG WAY TOWARD DAMPENING INFLATIONARY PRESSURE THIS YEAR. THE MOST IMPORTANT MEASURE, THE SALE DOMESTICALLY OF 500 MILLION PESOS IN CENTRAL BANK BONDS, SIGNALS THE BEGINNING OF REAL OPEN MARKET OPERATIONS IN COLOMBIA. THIS WILL PROVIDE THE GOC WITH A POTENTIALLY MORE EFFECTIVE MONETARY POLICY TOOL TO FIGHT INFLATION THAN TRADITIONAL MEASURES WHICH CONSIST MAINLY OF MANIPULATING BOTH BANK RESERVES AND PRIOR IMPORT DEPOSIT REQUIREMENTS. FURTHERMORE SUCCESSFUL OPEN MARKET OPERATIONS UNDOUBTEDLY WILL CREATE ADDED PRESSURE FOR AN ACROSS THE BOARD MARKET-DETERMINED INTEREST RATE STRUCTURE. THE OTHER ANNOUNCED MEASURES INCLUDE AN INCREASE IN PRIOR IMPORT DEPOSITS FROM 35 TO 40 PER CENT ON MOST REIMBURSABLE IMPORTS AND AN INCREASE IN IMPORT  
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REGISTRATIONS FROM ABOUT 100 TO 120 MILLION DOLLARS PER

MONTH.

2. IN ADDITION THE EMBASSY HAS LEARNED THAT PRESIDENT PASTRANA IS SERIOUSLY CONSIDERING MOVING THE PETROLEUM EXCHANGE RATE TO THE EXCHANGE MARKET RATE. THE CHANGE WOULD TAKE PLACE AFTER THE ELECTION BUT BEFORE THE NEW GOVERNMENT TAKES OFFICE. ACCORDING TO CONFIDENTIAL GOC CALCULATIONS THIS MOVE IS LIKELY TO SAVE AS MUCH AS 600 MILLION PESOS IN SUBSIDY PAYMENTS IN THE LAST 8 MONTHS OF THIS YEAR WHICH COULD PROVIDE ADDITIONAL LOCAL CURRENCY COUNTERPART TO FINANCE GOC DEVELOPMENT PROGRAMS. END SUMMARY.

3. FINATT MET WITH ECONOMIC SECRETARY TO THE PRESIDENT ENRIQUE LOW TO DISCUSS GOC PLANS TO CONTROL INFLATION IN 1974. LOW STATED THAT DESPITE PRESS STATEMENTS TO THE CONTRARY BY THE MINISTER OF LABOR THE GOC WILL BE UNABLE TO KEEP PRICES AT THEIR PRESENT LEVELS THROUGH THE ELECTION PERIOD. WHEN PRESSED FOR HIS PREDICTION OF THE LIKELY RATE OF INFLATION FOR THE FIRST HALF OF THIS CALENDAR YEAR LOW STATED THAT FIFTEEN PERCENT WAS PREDICTABLE BUT THAT IF PRICES WERE HELD TO JUST 8 PERCENT HE WOULD CONSIDER THE GOC ANTI-INFLATIONARY PROGRAM A SUCCESS. MAJOR INITIATIVES TO CONTROL INFLATION WILL INCLUDE MEASURES TO: (A) REDUCE LIQUIDITY CAUSED BY A LARGE EXPANSION OF THE MONEY SUPPLY IN 1973, (B) MAINTAIN ADEQUATE SUPPLIES OF MAJOR FOOD STUFFS IN THE URBAN MARKETS, AND (C) HOLD DOWN BUDGETARY EXPENDITURES IN 1974.

4. LOW STATED THAT THE ANNOUNCED BOND ISSUE OF 500 MILLION PESOS SIGNALLED THE BEGINNING OF REAL OPEN MARKET OPERATIONS. THESE SHORT-TERM CENTRAL BANK BOND ISSUES (2, 4, AND 6 MONTHS MATURITIES) WILL BE SOLD THROUGH THE STOCK EXCHANGE BY THE BOR AT WHAT EVER PRICE THE MARKET WILL BEAR. THE GOVERNMENT WILL REDEEM THEM AT FACE VALUE AT MATURITY. ACCORDING TO LOW THE GOVERNMENT WILL PLACE AS MUCH AS ONE BILLION PESOS IN BONDS THIS YEAR IF THINGS GO WELL WITH THE FIRST ISSUES. MATURITIES ARE LIKELY TO BE EXTENDED AS PUBLIC CONFIDENCE GROWS. WITH A MONEY MULTIPLIER OF ABOUT 2 LOW ANTICIPATES THAT BOND ISSUES THIS YEAR COULD SOAK CONFIDENTIAL

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UP AS MUCH AS 2 BILLION PESOS OF EXCESS LIQUIDITY.

OPEN MARKET OPERATIONS WERE DESCRIBED BY LOW AS A NEW AND BETTER MONETARY TOOL WHICH AMONG OTHER THINGS COULD HELP STABILIZE MONETARY EXPANSION THROUGHOUT THE YEAR. FOR EXAMPLE THE GOC IS LIKELY TO SELL BONDS AT THE SAME TIME IT IS EXPANDING THE MONEY SUPPLY TO PURCHASE THE COFFEE CROP THUS SPREADING OUT THE MONETARY

IMPACT OF THE PURCHASE.

5. WHEN ASKED WHY THE GOVERNMENT WAS RELUCTANT TO SELL BONDS IN THE DOMESTIC MARKET BEFORE LOW STATED THAT BOTH THE MINISTER OF DEVELOPMENT AND AGRICULTURE HAD OPPOSED OPEN MARKET OPERATIONS BECAUSE THEY WERE AFRAID IT WOULD ADVERSELY AFFECT THE COST OF AGRICULTURAL AND BUSINESS CREDITS WHICH COULD DISCOURAGE INVESTMENT AND MIGHT LEAD TO HIGHER COSTS OF PRODUCTION. THE RAPID EXPANSION OF THE MONEY SUPPLY IN 1973 AND THE DESIRE TO AT LEAST IN PART CONTROL INFLATIONARY PRESSURE IN 1974 THROUGH OPEN MARKET OPERATIONS APPARENTLY OUTWEIGHED THE COST OF MONEY ARGUMENTS WITHIN THE GOC. IT SHOULD BE NOTED THAT PROF. BARROWS AN AID FINANCED CONSULTANT HAD STRONGLY RECOMMENDED TO THE GOC IN 1973 THAT THEY UNDERTAKE OPEN MARKET OPERATIONS.

6. LOW STATED THAT ONCE THE ELECTIONS ARE OVER THERE IS A GOOD CHANCE THAT PASTRANA WILL ANNOUNCE THE END OF THE CURRENT GOC SUBSIDY OF GASOLINE THROUGH THE SPECIAL PETROLEUM EXCHANGE RATE. REVISION OF THE EXCHANGE RATE WOULD BE ACCOMPANIED BY A PRICE INCREASE. THIS COULD SAVE THE GOC AS MUCH AS 600 MILLION PESOS IN THE LAST EIGHT MONTHS OF THE YEAR AS WELL AS REDUCE THE GROWTH IN DEMAND FOR GASOLINE. THE PROPOSAL PRESENTLY BEING STUDIED WOULD CALL FOR MOVING THE PETROLEUM EXCHANGE RATE (20 PESOS PER DOLLAR) TO THE MARKET EXCHANGE RATE CURRENTLY ABOUT 25 PESOS PER DOLLAR.

7. COMMENT: LOW'S OPTIMISM REGARDING THE POSSIBILITY THAT THE PRESENT ADMINISTRATION WILL ACT ON THE GASOLINE PRICE QUESTION IS NOT SHARED BY THE VAST MAJORITY OF PRIVATE PETROLEUM PRODUCERS. FURTHERMORE IT APPEARS THAT LOW'S ESTIMATE OF THE POSSIBLE PESO SAVINGS FROM  
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RATIONALIZING PETROLEUM PRICES MAY BE OVERLY OPTIMISTIC ALTHOUGH HE DID NOT GO INTO DETAIL ON HOW THE ESTIMATE WAS DERIVED. IN ANY EVENT WE BELIEVE THAT OPEN MARKET OPERATIONS IF PROPERLY EXERCISED COULD GO ALONG WAY IN DAMPENING INFLATIONARY PRESSURES IN COLOMBIA.  
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## Message Attributes

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